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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR AN)
ACCOUNTING ORDER)

CASE NO. IPC-E-14-08

COMMENTS OF THE
COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, and submits the following Comments in response to Order No. 33040 issued on May 22, 2014.

BACKGROUND

The J.R. Simplot Company operates a PURPA cogeneration facility at its Pocatello plant. In February 2006, Idaho Power and Simplot entered into a Power Purchase Agreement (the "2006 PPA") whereby Simplot agreed to sell power to the utility over a seven-year period ending on February 28, 2013. *See* Order No. 30028, Case No. IPC-E-06-03. Under the terms of the 2006 PPA, Simplot was generally required to deliver no less than 90% of the contracted monthly amount of power and no more than 110% of the monthly amount (commonly referred to as the "90-110 band"). If Simplot's delivery of energy was outside of the 90-110 band, then Idaho Power was

required to price the power using a different pricing methodology which would typically result in smaller payments to Simplot in those months.

Idaho Power asserts that upon termination of the 2006 PPA in February 2013, it “discovered an overpayment [to Simplot] had occurred” during the term of the expired contract. Application at 2. Apparently Idaho Power did not adjust the monthly payments to Simplot for power outside the 90-110 band.

The parties subsequently began discussions regarding the recovery of the overpayments made to Simplot. *Id.* As a result of these discussions, Idaho Power and Simplot entered into a confidential Settlement Agreement in February 2014. Under the terms of the Settlement Agreement, Simplot agreed to repay \$1,564,503.76 of the \$1,884,406.85 that was reportedly overpaid to Simplot. *Id.* at ¶ 3. Idaho Power will also repay to customers the unrecovered balance of \$319,903.09 (\$1,884,406.85 - \$1,564,503.76). *Id.*

Idaho Power proposes to record the recovery of the overpayments to customers through the annual PCA mechanism.¹ The utility asserts that the recovery of the overpayments “will be a direct benefit to . . . customers in the form of a reduction in net power supply expense.” Application at 3.

STAFF ANALYSIS

The 2006 PPA contained a 90-110 band requirement under which Simplot was to provide Idaho Power with estimated monthly generation values. Under the 90-110 band requirement, actual energy deliveries are compared to these estimates, and if the actual energy deliveries are less than 90% or greater than 110% of the estimated amounts, an alternative pricing methodology would be applied to the energy payments.

These adjustments to the energy payments were not made during the entire seven-year term of the 2006 PPA, and Idaho Power paid Simplot the full value of the energy regardless of whether it fell outside the 90-110 band. Idaho Power stated it did not discover the overpayment until the Simplot Agreement terminated in 2013. Simplot and Idaho Power subsequently entered into a new PPA (the “2013 PPA”) for this facility, which was approved by the Commission on April 17, 2013. Order No. 32790, Case No. IPC-E-13-02.

¹The Company’s proposed recovery of the overpayments does not affect the 2014 PCA application that was recently approved by the Commission in Order No. 33049, Case No. IPC-E-14-05.

Overpayment Amount

In various production requests, the Staff asked Idaho Power for information regarding the calculation of the “overpayment amount” agreed to by the parties. In response, Idaho Power reported that the difference in total payment to Simplot between the full contract price and the 90-110 alternative pricing periods over the seven-year term of the contract is \$2,429,438. This amount was subsequently adjusted to reflect Simplot’s planned maintenance for this facility occurring in May and June of every year. When the May-June planned maintenance events are taken out of the 90-110 determination, the difference is reduced by \$545,031.90, resulting in the reported total overpayment amount of \$1,884,406.85.

Because both parties understood in advance that these planned maintenance periods would occur each year, Staff believes this adjustment to the overpayment amount is appropriate. Staff reviewed Idaho Power’s computation of the total overpayment amount and the planned maintenance adjustments and believes these adjustments are accurate. Consequently, Staff concurs with the reported overpayment amount of \$1,884,406.85.

Internal Controls

The Staff also asked the Company how the overpayments occurred and what internal controls were presumably in place to verify the accuracy of the payments. In response, the Company detailed the internal controls that should have prevented the overpayments, and why the internal controls failed. Staff further inquired as to what changes in internal controls are being implemented to prevent this type of overpayment in the future. The Company has implemented additional controls to prevent any future overpayments.

The Company also disclosed that it reviewed all of its other 90-110 band PURPA contracts to ensure the contract billing terms were properly applied. In addition, the Company examined the payment calculation process to determine if any manual calculations and or verifications could be programmed into the PURPA application process in order to reduce the potential for human error. Staff believes the necessary changes to prevent a future event have been programmed into the PURPA application process and appear to adequately address the past problem.

Sharing and Repayment of the Overpayment Amount

Apparently neither Idaho Power nor Simplot wished to bring this matter before a court or the Commission in a contested proceeding. Staff notes that the Application and Settlement Agreement do not request that the Commission approve the Settlement but only request an accounting order to implement the Settlement. Idaho Power and Simplot negotiated a Settlement Agreement that provides for the recovery of the overpayment to the benefit of the Company's customers. The Agreement provides that Simplot will pay \$1,564,503.76 and Idaho Power will contribute the remaining \$319,903.09 for a total amount of \$1,884,406.85. Staff expects that the source of Idaho Power's contribution will be shareholder funds, not ratepayer funds.

Under the terms of the Settlement, Simplot will repay its \$1,564,503.76 share of the overpayment in

(This section of Staff's comments contains confidential information subject to protective agreement.)

Idaho Power proposes to pay the \$319,903.09 in one lump sum, to flow back to customers in the next year's Power Cost Adjustment.

Although the parties entered into their settlement in February 2014, recovery of the overpayments to Simplot was not included in the most recent PCA filing (IPC-E-14-05) because the Company had not recorded any recovery transactions related to the Simplot overpayment during the PCA period of April 2013 through March 2014. The first recovery payment from Simplot was paid in April 2014 and will be reflected in next year's PCA filing in April 2015.

Staff Proposed Accounting Treatment and Modified Recovery Period

Despite the lack of a request to approve the Settlement Agreement, Staff believes the Commission has authority to review Idaho Power's conduct and the Settlement. Based upon its review, Staff believes the Settlement (as modified below) is fair and reasonable. Staff does not oppose the proposed sharing of the overpayment costs between the parties. Although it might be argued that Simplot should be liable for the entire amount of the overpayment, Staff believes that Idaho Power must bear some responsibility for failing to adequately monitor and adjust the contract payments. Because the overpayment occurred over a seven-year period, there is also an issue whether Idaho Power would be able to recover the full amount from Simplot.

Although Staff supports the agreement between the parties, Staff does not support Idaho Power's proposed accounting treatment to recover the overpayments

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Staff believes the Company should credit the entire amount of the overpayment to customers in the 2015 PCA year. Because the overpayment occurred over a seven year period, the proposal to recover the overpayments [(Redacted)] does not necessarily compensate the same customers that were overcharged when the overpayment occurred. Moreover, a year has already passed since Idaho Power discovered the overpayments. Staff believes that the Company's failure to properly compensate Simplot under the 2006 PPA should not excuse the utility from immediately compensating customers for the overpayments.

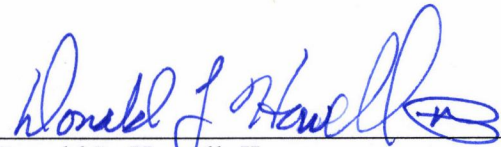
Idaho Power proposes to record recovery of the overpayments by debiting either the Federal Energy Regulatory Commission (FERC) Account No. 143 (Other Accounts Receivable) for funds to be received, or by debiting FERC Account No. 235 (Customer Deposits) and crediting FERC Account No. 555 (Purchased Power) if the funds are already on deposit with the Company. The Company proposes to refund the money to customers as repayments from Simplot are received. Staff recommends that the full amount of the repayments be recorded in the PCA immediately, rather than when the payments are received. Requiring repayment in next year's PCA will not adversely affect the Company's financial position. The overpayment amount to be recovered from Simplot is 1.2% of the total actual PURPA expenses as included in the past two PCA filings, and the total amount is less than 1% of the Company's net income for 2013. Staff sees no reason for customers to wait for the repayment from Simplot.

STAFF RECOMMENDATIONS

Staff believes that the Settlement between Simplot and Idaho Power as modified by Staff is fair, reasonable and in the public interest. Staff believes that it is reasonable for the recovery to be apportioned for Simplot to pay \$1,564,503.76 and for Idaho Power to pay \$319,903.09. However, Staff recommends that customers be compensated by Idaho Power in a single year through the 2015 PCA for the agreed upon amount of the overpayments. Staff recommends the Commission issue an accounting order authorizing the Company to set up the necessary regulatory accounts needed to

reflect the full amount of the overpayment in the next year's PCA case. Staff further recommends that the Company file the actual initial accounting entries with Commission Staff.

Respectfully submitted this 19th day of June 2014.



Donald L. Howell, II
Deputy Attorney General

Technical Staff: Rick Sterling
Kathy Stockton

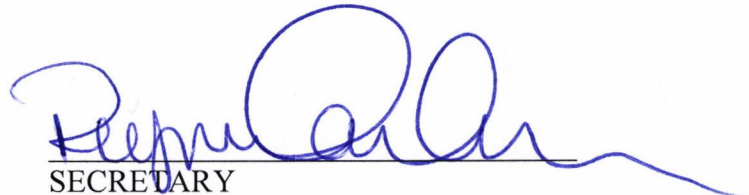
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF JUNE 2014, SERVED THE FOREGOING **NON-CONFIDENTIAL COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-14-08, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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